

Message Text

PAGE 01 TOKYO 01211 291127Z

46

ACTION EB-07

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LIMITED OFFICIAL USE TOKYO 1211

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SUBJ: SAKHALIN OIL AND GAS EXPLORATION PROJECT

REF: A. TOKYO 9468 B. MOSCOW 18216

SUMMARY. JAPAN AND SOVIET UNION HAVE SIGNED GENERAL AGREE-
MENT FOR OIL/GAS EXPLORATION ON CONTINENTAL SHELF AROUND
SAKHALIN ISLAND. IN RETURN FOR TOTAL \$152 MILLION IN
CREDITS, JAPAN WILL RECEIVE RIGHTS TO 50 PERCENT OF PRO-
DUCTION AT PRICE 8.4 PERCENT BELOW MARKET PRICE.

1. V. N. SUSHKOV, SOVIET FOREIGN TRADE VICE MINISTER, AND
HIROKI IMAZATO, PRESIDENT OF SAKHALIN OIL DEVELOPMENT
COOPERATION COMPANY (SODECO), SIGNED A GENERAL AGREEMENT
IN PUBLIC CEREMONY ATTENDED BY PRESS ON JANUARY 28,
1975, FOR JOINT OIL/GAS EXPLORATION ON CONTINENTAL
SHELF AROUND SAKHALIN ISLAND. TEXT OF
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PAGE 02 TOKYO 01211 291127Z

AGREEMENT HAS NOT APPEARED IN PUBLIC REPORTS, BUT
EMBASSY HAS OBTAINED FOLLOWING GENERAL PICTURE FROM
SOURCES INVOLVED IN NEGOTIATIONS.
FINAL DETAILS OF FINANCING, INCLUDING INTEREST RATE, YET TO

BE WORKED OUT, BUT AGREEMENT STIPULATES SONECO WILL EXTEND \$100 MILLION IN CREDITS OVER 5 YEARS, REDEEMABLE UP ON SUCCESS OF EXPLORATION PHASE. ACCORDING TO SOURCE INVOLVED IN NEGOTIATIONS, 70 PERCENT OF FUNDS IS TO BE PROVIDED BY GOVERNMENT OWNED JAPAN PETROLEUM DEVELOPMENT CORPORATION (JPDC) AND 30 PERCENT BY PRIVATE FIRMS INCLUDING JAPEX, OVERSEAS PETROEUM CORPORATION, MARUBENI, AND C. ITOH. U.S. FIRM GULF OIL MAY ALSO TAKE 10 PERCENT IF MUTUALLY ACCEPTABLE CONDITIONS CAN BE WORKED OUT.

GENERAL AGREEMENT ALSO CALLS FOR ADDITIONAL \$52.5 MILLION IN CREDITS FOR PERMANENT STRUCTURES AND LOCAL COSTS (REF B). THE PARTIES EXPECT THESE CREDITS WILL BE GRANTED BY JAPAN EXIM BANK AND PRIVATE BANKS, DETAILS OF WHICH INCLUDING INTEREST RATE, HAVE NOT YET BEEN WORKED OUT.

2. IN RETURN JAPAN WILL RECEIVE 50 PERCENT OF OIL OR NATURAL GAS DISCOVERED--AS MUCH AS 30 MILLION BARRELS ACCORDING TO RUSSIAN ESTIMATES--AT A PRICE 8.4 PERCENT BELOW MARKET PRICE. EXPLORATION IS TO BEGIN AS SOON AS IS PRACTICAL, PROBABLY IN MAY OR JUNE.

3. ALTHOUGH GENERAL AGREEMENT DOES NOT SPECIFICALLY CALL FOR U.S. PARTICIPATION, AN AMERICAN WHO WAS PRESENT AT PLENARY SESSION REPORTED TO EMBOFF THAT SUSHKOV PRAISED U.S. COOPERATION ON SAKHALIN PROJECT AND SAID SOVIETS WOULD WELCOME U.S. PARTICIPATION. SAME SOURCE, WHO HAS CLOSE TIES WITH GULF OIL, SAID GULF AND JAPANESE WILL MEET NEXT WEEK TO DISCUSS SAKHALIN, BUT DOES NOT EXPECT AGREEMENT ON TERMS OF GULF'S PARTICIPATION CAN BE REACHED IMMEDIATELY. HE SAID THAT IN ADDITION TO COMPETITION FROM OTHER AMERICAN OIL COMPANIES, JAPEX IS RESISTING PARTICIPATION BY GULF IN EXPLORATION PHASE ON GROUNDS THAT JAPAN ALREADY POSSESSES ADEQUATE TECHNOLOGY. IN THE END, HOWEVER, SOURCE EXPECTS GULF'S SUPERIOR TECHNICAL CAPABILITIES, ESPECIALLY WITH REGARD TO RESEARCH VESSEL HOLLIS HEDBERG, IN WHICH RUSSIAN HAVE ALSO EX-LIMITED OFFICIAL USE
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PAGE 03 TOKYO 01211 291127Z

PRESSED INTEREST, WILL LEAD JAPANESE TO CONCLUDE AGREEMENT WITH GULF.

4. GULF ALSO HAS HELD PRELIMINARY DISCUSSIONS WITH SOVIETS ON SEPARATE SECTION OF CONTINENTAL SHELF AROUND SAKHALIN (REF A). GULF SOURCE CONFIRMED SUSHKOV PRESS STATEMENT THAT NO TALKS BETWEEN SOVIETS AND GULF CURRENTLY UNDERWAY, BUT SAID GULF HAD BEEN IN CONTACT WITH SOVIETS "IN A GENERAL WAY" LAST DECEMBER 12 AND 17. SOURCE ALSO CONFIDENT THAT SOVIET AGREEMENT WITH JAPANESE WILL GIVE BOOST TO GULF-SOVIET NEGOTIATIONS.

5. COMMENT: SIGNING GENERAL AGREEMENT FOR JOINT SAKHALIN EXPLORATION REPRESENTS FIRMEST JAPANESE COMMITMENT TO DATE TO MAJOR ENERGY DEVELOPMENT PROJECT IN SIBERIA. THERE MAY BE SOME RESISTANCE IN JAPEX TO GULF'S PARTICIPATION, BUT GOJ HAS INDICATED TO EMBASSY THAT, FOR POLITICAL REASONS, IT WOULD STRONGLY OPPOSE JAPANESE PARTICIPATION IN SIBERIAN ENERGY DEVELOPMENT PROJECTS WITHOUT SOME U.S. INVOLVEMENT. ADDITIONALLY, RECENT STATEMENTS BY JAPANESE BUSINESS LEADERS AND PRESIDENT OF JAPAN EXIM BANK TO EFFECT THAT JAPAN SHOULD NOT MOVE AHEAD UNILATERALLY ON YAKUTSK NATURAL GAS PROJECT SUGGESTS BUSINESS COMMUNITY SUPPORTS GOJ VIEW THAT COOPERATION WITH U.S. ESSENTIAL PRECONDITION FOR JAPANESE INVOLVEMENT IN SIBERIAN ENERGY RESOURCES DEVELOPMENT.
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